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SUMMARY OF FINANCIAL MARKETS IN SWAZILAND: SECONDARY SOURCE SURVEY

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U.S. Agency for International Development

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NOTE

This document was prepared by Arthur Young and summarizes existing literature describing the country. Secondary sources were obtained from the International Monetary Fund, the World Bank, the Inter-American Development Bank, the African Development Bank, the Asian Development Bank, the United Nations, and other relevant commercial sources.

SWAZILAND
SUMMARY OF FINANCIAL MARKETS SURVEY

A. ENVIRONMENT

1. Political climate

The Kingdom of Swaziland gained independence from Great Britain in September, 1968, under the cohesive leadership of King Sobhuza II. Sobhuza held complete control over the parliamentary style government until his death in August, 1982. During his reign, Swaziland remained relatively free of political turmoil. Since Sobhuza's death, however, there has been an intense power struggle among members of the Liqoqo, the Supreme Council of State. Sobhuza's second youngest son, Makhosetive, took the throne in April, 1986 at the age of 18. There is considerable doubt that he will be able to contain the power struggle within the Liqoqo. In addition to the internal struggle within the Liqoqo, there is opposition to the Liqoqo from both student groups and other factions. Makhosetive is also confronted with several major socio-economic and political issues. These include the growing number of unemployed youth, high inflation, and whether or not the policy of alignment with South Africa established by his father should be retained.

2. Economic stability

Swaziland is rich in natural resources and enjoys one of the highest standards of living south of the Sahara. The economy is closely tied to that of South Africa and, thus, has been greatly affected by the stability of that country's economy. It is primarily a rural agricultural economy, with wage labor increasingly supplementing traditional farming and herding. The use of land is communally shared, thus cattle are the greatest form of wealth. Swaziland incurred considerable damage in January, 1984, when Cyclone Domoina destroyed railroads, bridges and roads. Relief efforts were well coordinated, and much of the cost was absorbed by exports, which had risen sharply as a result of the concurrent devaluation of the rand and emalangeni.

3. Social system
The social structure of Swaziland has traditionally been based on a rural tribal system. The change to a more western system has not come without tensions, but the transition has been smoother than in most African countries. The strides Swaziland has made in educating the population has created a new educated elite. This class has permeated all levels of the government bureaucracy, but has been unable to penetrate mid-level management in the multinational corporations. There is some tension between the new Swazi middle class and the Eurafricans (typically the offspring of Swazi women and white settlers or officials), who held a privileged position under British colonial rule, but are now denied citizenship unless Swazi parentage is along the male line.

4. Relations with South Africa
Swaziland is closely aligned with South Africa both economically and politically. It holds a formal non-aggression pact, as well as formal trade agreements, with South Africa. The national currency is tied to the South African rand, which is legal tender in Swaziland. The majority of Swaziland's trade is with South Africa. Swaziland's close relationship with South Africa has led to increased government oppression of the African National Congress (ANC), to the extent that there is no official ANC presence in Swaziland, and most of its members have been deported.

5. International donors
   - ADB
   - CDC
   - IDA
   - IDRB
   - UK
   - West Germany

6. International trade agreements

   - Rand Monetary Authority - Botswana and Swaziland. The South African rand is legal currency in member countries, which has minimized exchange costs. Swaziland is currently negotiating withdrawal from the Rand Monetary Authority.

   - South African Development Coordination Conference - includes Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe. Goals are to reduce economic dependence (esp. on South Africa), and to build regional integration

- Southern African Customs Union - members include Botswana, Lesotho, Swaziland, and South Africa. Membership provides compensation for customs duties collected by South Africa

- Preferential Trade Area for East and Southern Africa - currently 15 member states in eastern, central, and southern Africa. Designed to liberalize trade in several industries.

- Lome Convention - agreement between EC and 66 African, Caribbean and Pacific states guaranteeing duty free entry to the EC for specified commodities.

B. ECONOMY

1. Swaziland has an extremely open economy; imports and exports account for more than 60 and 80 per cent of GDP, respectively.

2. The economy has grown faster than other economies in the region, due primarily to the modern export oriented sector of the economy, which includes commercial farming and forestry, mining and manufacturing.

3. Tibiyo Takangwane holdings (see section D) in large enterprises has facilitated the development of export-oriented agro-industries.

4. The economy is primarily agricultural, with commercial agriculture and forestry comprising 25 per cent of GDP and 60 per cent of exports. Sugar is the major export; approximately 14 per cent of the population are employed in the industry.

5. GOS has implemented an austere budget in an effort to reduce the deficit the government has been running since FY 1984-85. It is hoped that these measures will prevent the need to draw reserves down further or to borrow, as current debt servicing requirements are creating significant budgetary constraints.

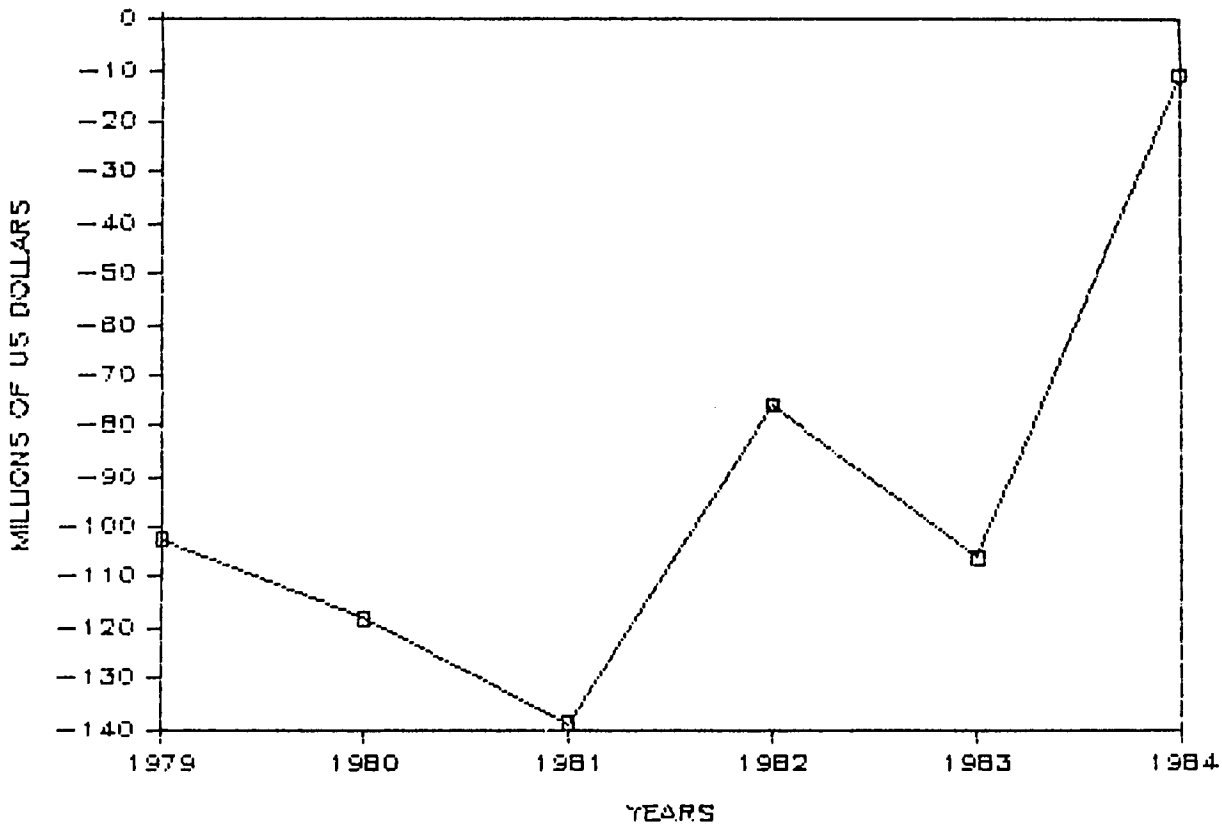
6. Labor force analysis

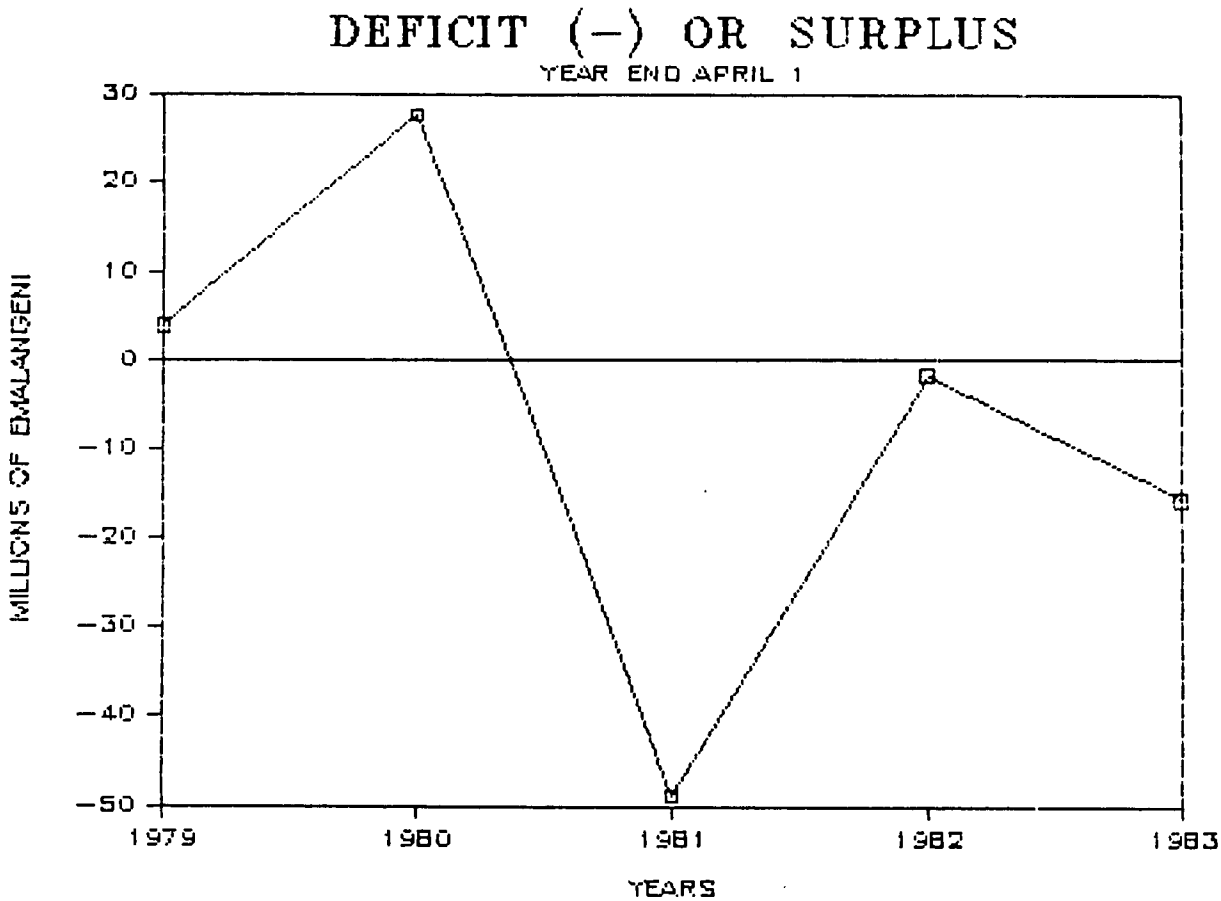
   a. Unemployment is becoming a serious problem in Swaziland, particularly among the young. Each year approximately 7,000 youths enter the work-force, to find an annual shortfall of over 4,000 jobs.

   b. Population was estimated to be 610,000 in mid 1983, with an annual growth rate of 3.3 to 3.4 per cent.

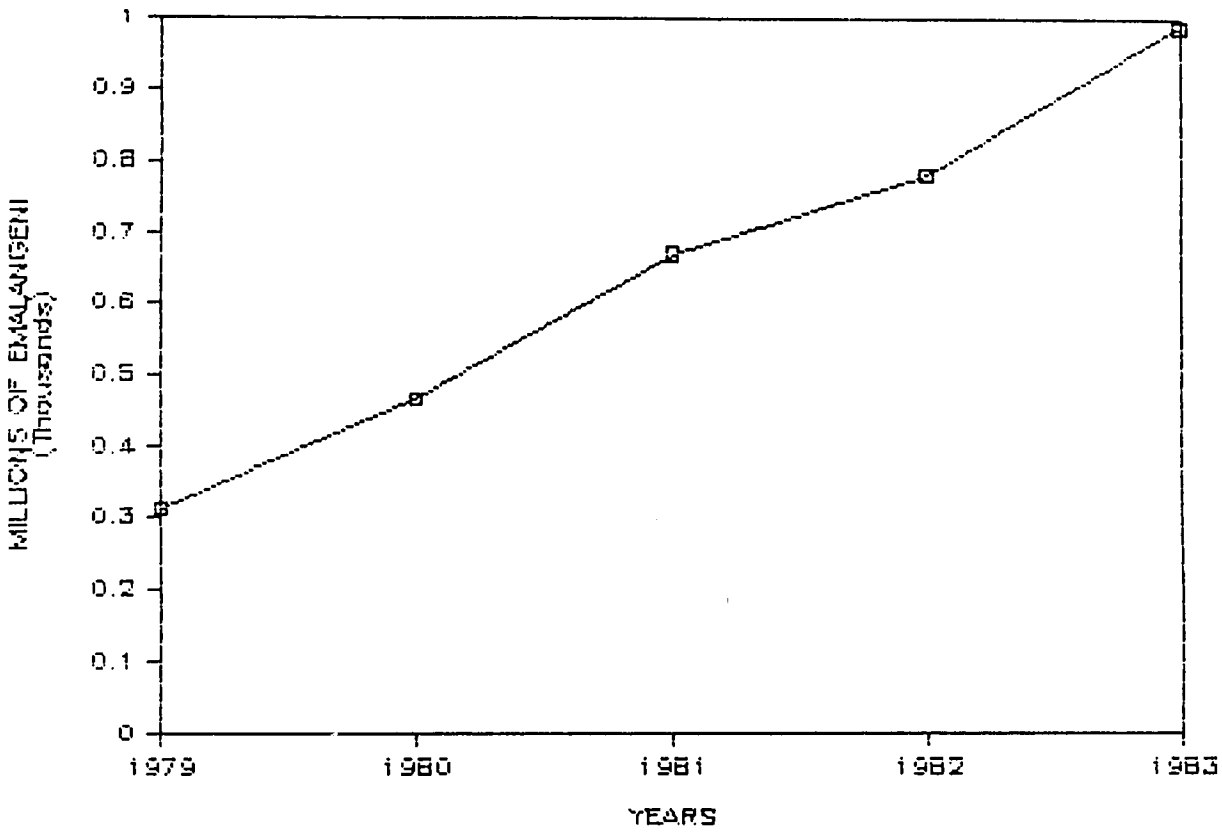
   c. Approximately 70 per cent of the population are engaged in the traditional subsistence economy.

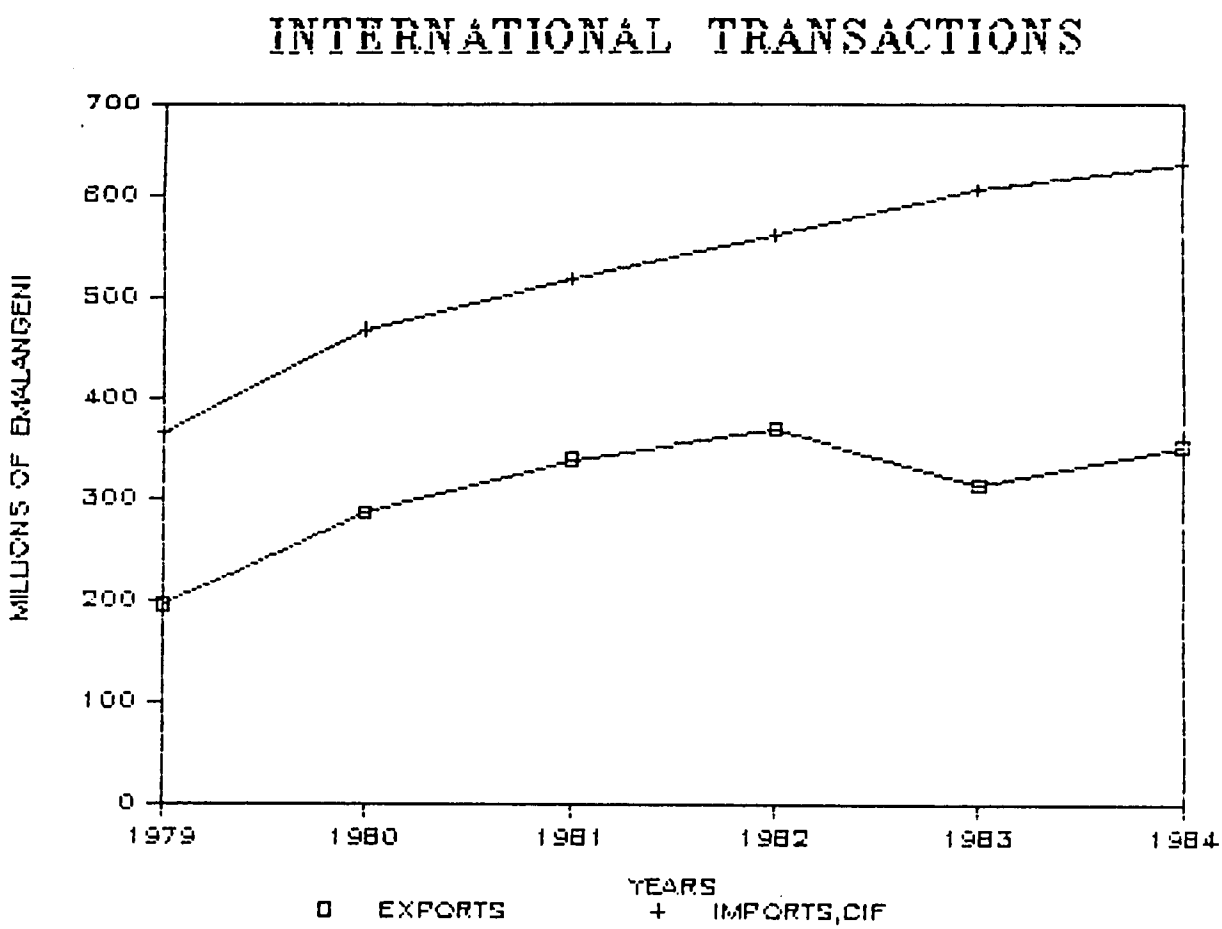
BALANCE OF PAYMENTS CURRENT ACCOUNT

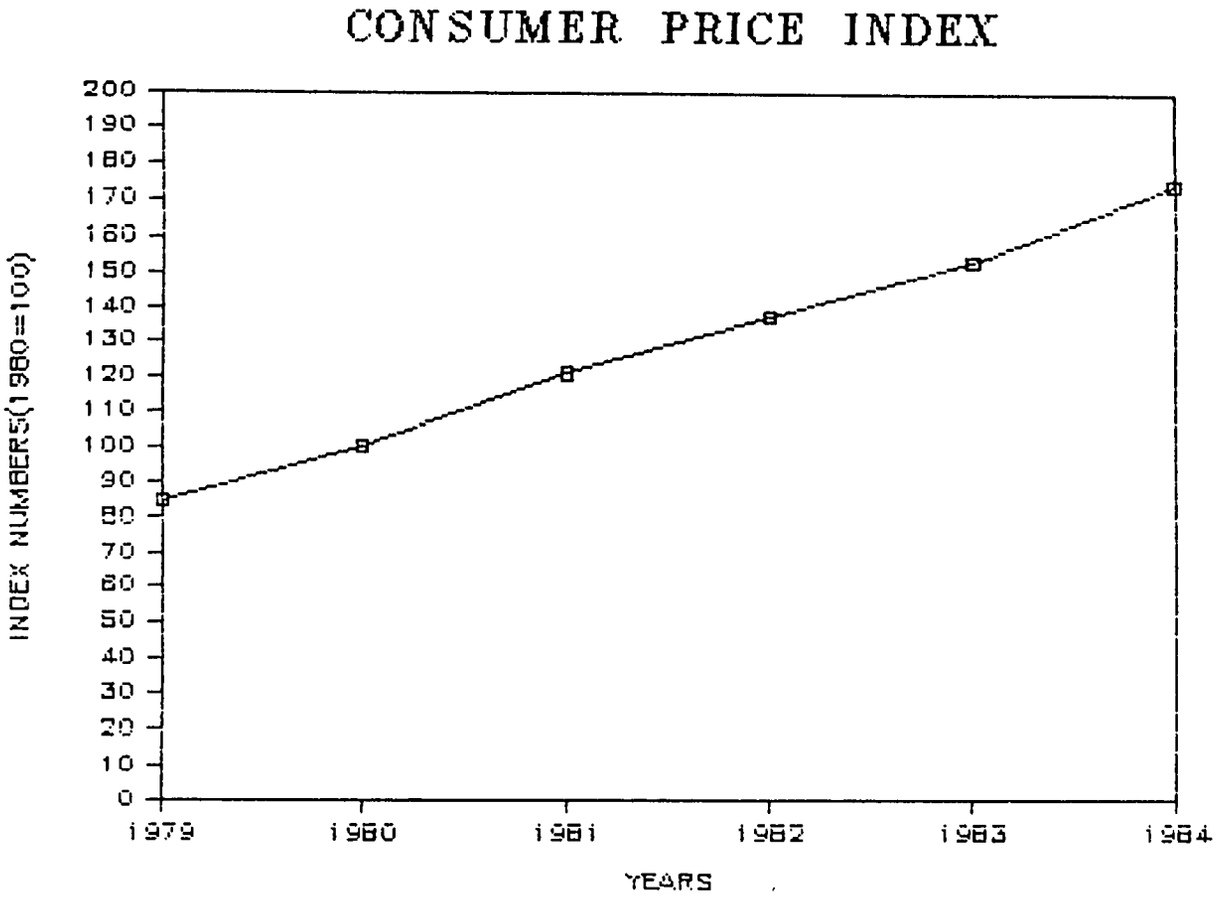



DEFICIT (-) OR SURPLUS
YEAR END APRIL 1
30
20
10
0
-10
-20
-30
-40
-50
MILLIONS OF EMALANGENI
1979
1980
1981
1982
1983
YEARS

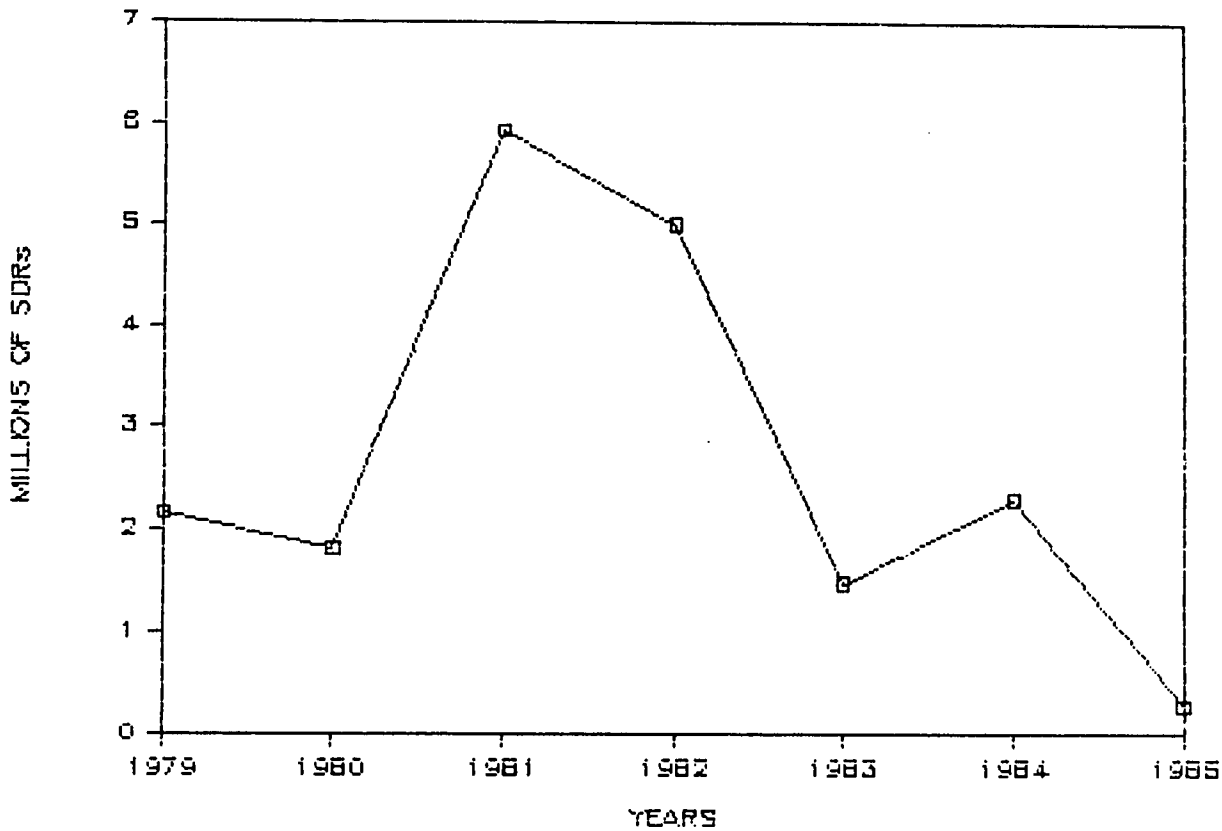
REAL GDP – 1980 PRICES



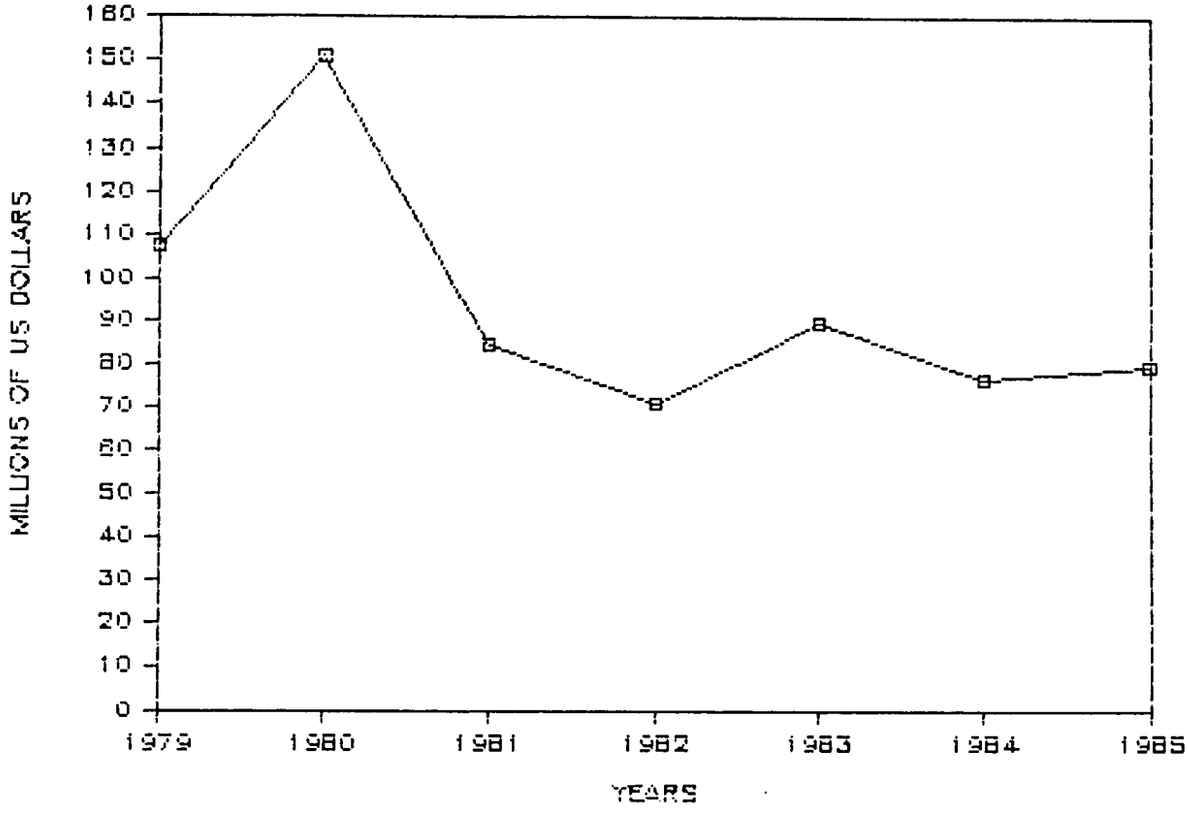

INTERNATIONAL TRANSACTIONS
700
600
500
400
300
200
100
0
MILLIONS OF EMALANGENI
1979
1980
1981
1982
1983
1984
YEARS
EXPORTS
IMPORTS,CIF


CONSUMER PRICE INDEX
INDEX NUMBERS(1980=100)
200
190
180
170
160
150
140
130
120
110
100
90
80
70
60
50
40
30
20
10
0
1979
1980
1981
1982
1983
1984
YEARS

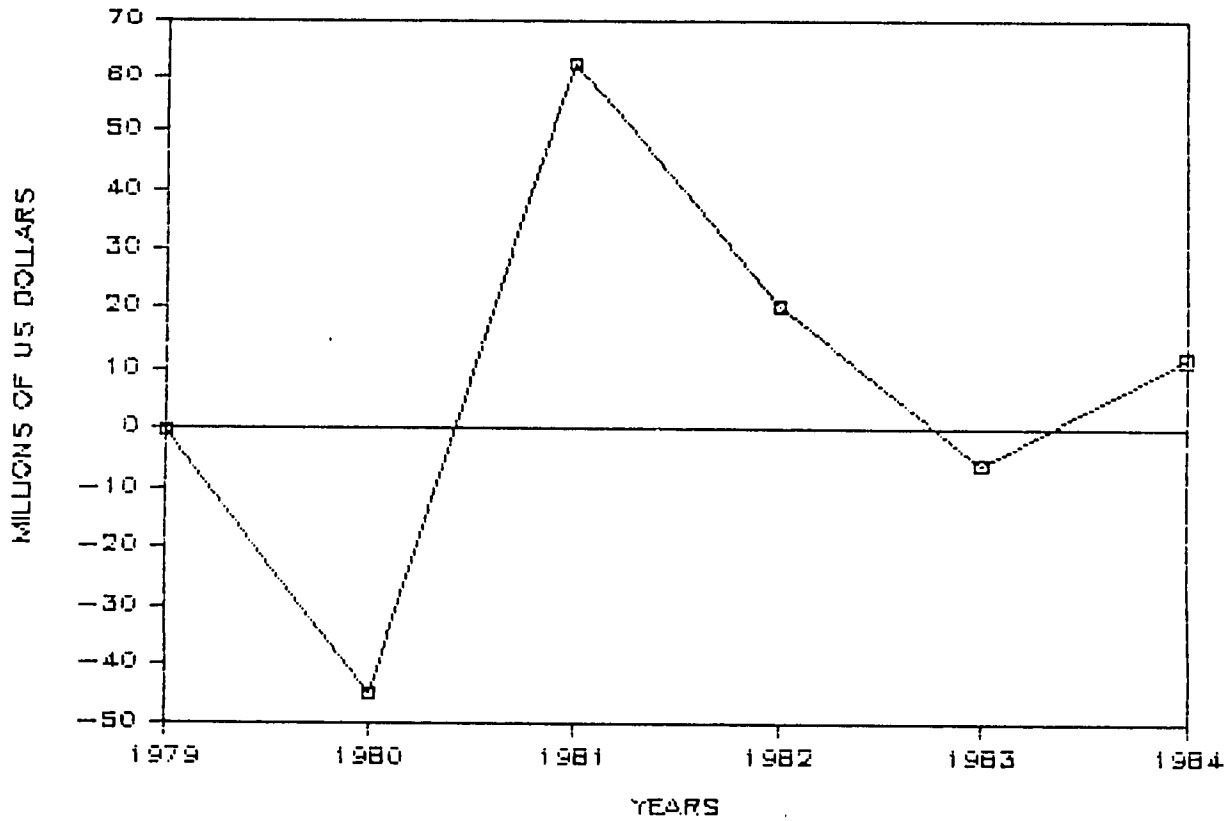
IMF RESERVE POSITION



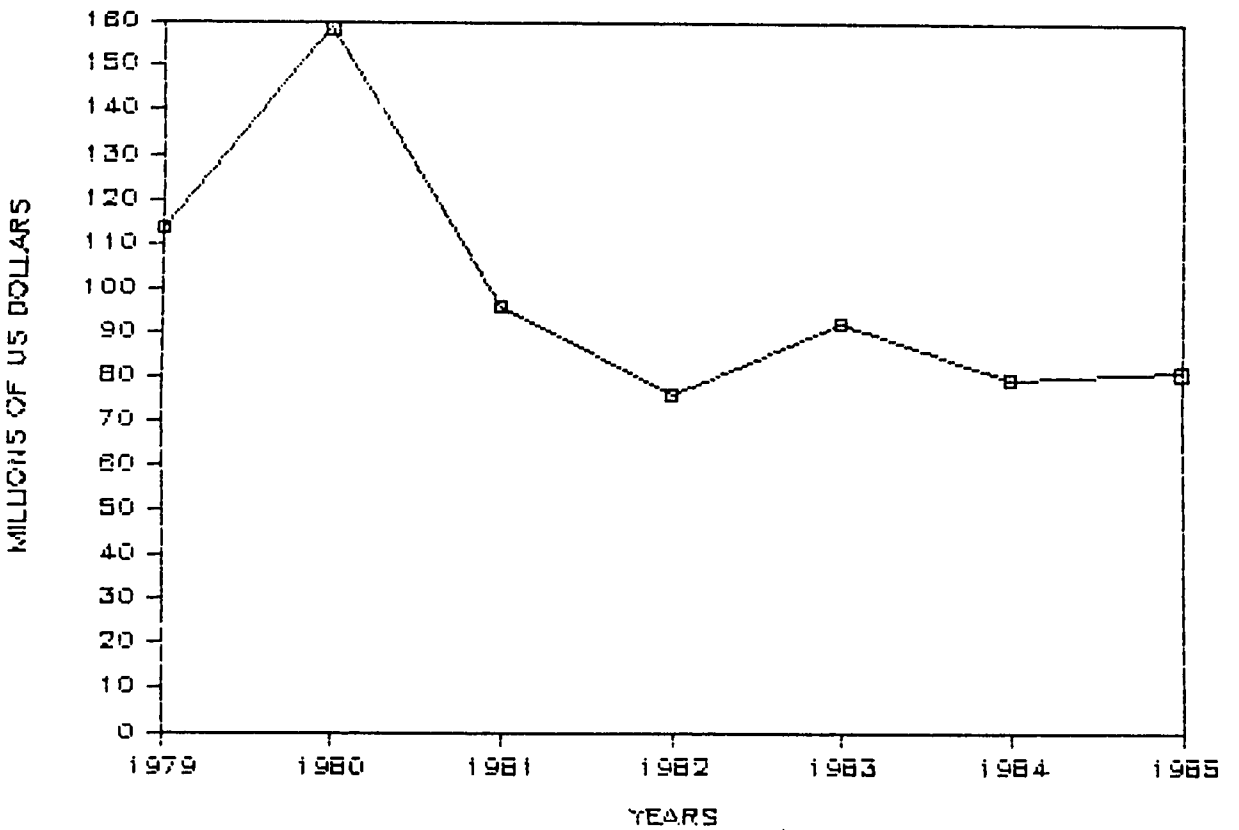
FOREIGN EXCHANGE



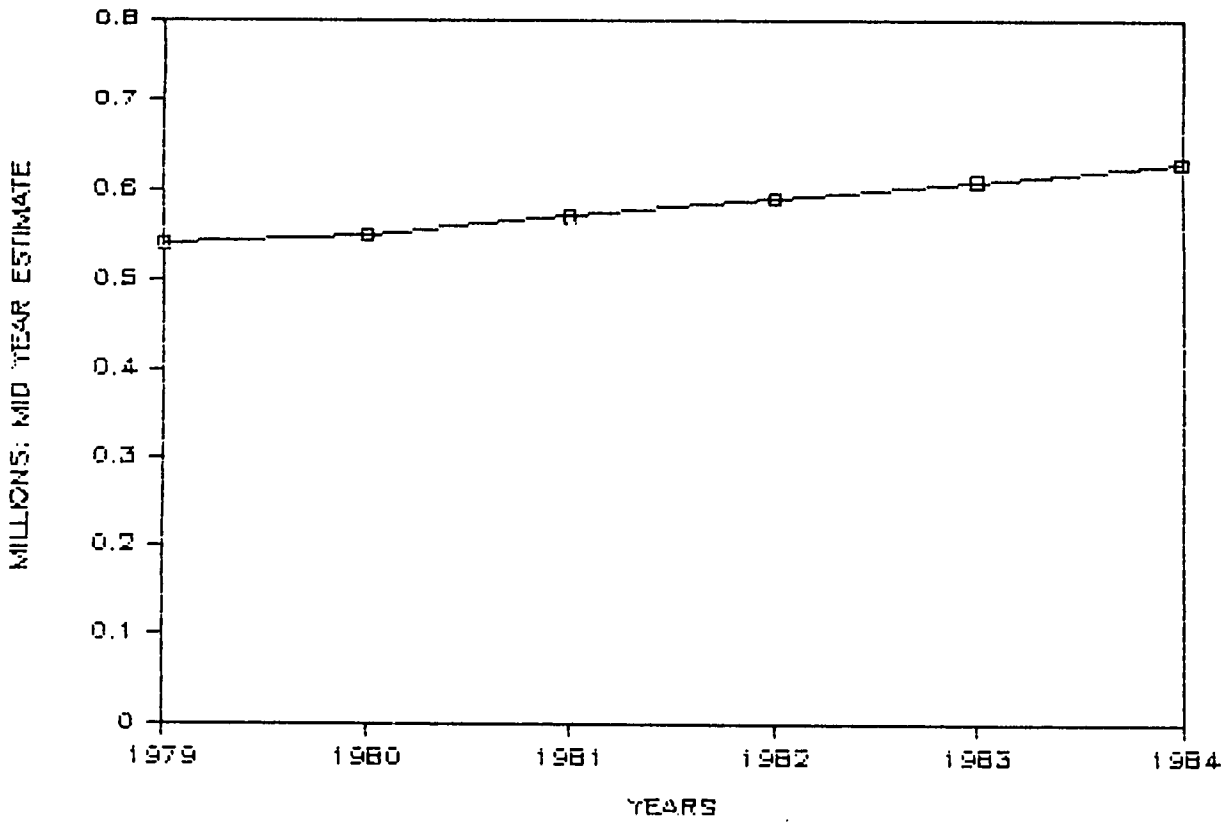
TOTAL CHANGES IN RESERVES



TOTAL RESERVES MINUS GOLD



POPULATION


0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
MILLIONS; MID YEAR ESTIMATE
1979
1980
1981
1982
1983
1984
YEARS

C. GOVERNMENT ATTITUDES/REGULATORY CLIMATE

1. In an effort to avoid drawing down further limited reserves or increasing the amount of external borrowing, GOS is looking to the private sector to fuel needed economic growth. To strengthen the private sector and increase overall employment, GOS has implemented the following changes:

   a. Streamlined administrative procedures which hamper private investment;

   b. Devised an incentive plan including a five year company tax exemption for new firms in new manufacturing industries, a 50 per cent raise in initial allowances for expanding firms' new plant and equipment, and a 300 per cent increase in housing and training allowances;

   c. Raised limits for tax exemption of interest income from E1,000 and E4,000 to E10,000 in order to encourage the flow of funds toward development institutions such as the Swaziland Development and Savings Bank and Swaziland Building Society; and

   d. Implemented a sales tax to strengthen the revenue base.

D. FINANCIAL MARKETS

1. The national currency is the lilangeni (plural emalangeni), which is at par and freely convertible with the South African rand. As of the beginning of 1986, negotiations have been under way to disengage the lilangeni from the rand and to remove the rand's status as legal currency in Swaziland. Swaziland is pushing for these measures because the devaluation of the rand due to South Africa's worsening political situation has hurt Swaziland's development.

2. Tibiyo Takangwane
   Tibiyo was created by royal charter to manage the Swazi Nation's financial assets, particularly land and mineral resources. The Swazi Nation is comprised of ethnic Swazis living in rural areas and following traditional ways, and is distinct from the Government of Swaziland, which refers to the modern administrative institutions. In 1981 Tibiyo had investments of about E41 million, and investment income of E11 million from holdings in several industries, including sugar. The depressed world market for sugar dropped Tibiyo's revenue to E5 million in 1984. Tibiyo is unaccountable to parliament, and thus its financial position is not known completely. The monarchy has been known to use government funds to fund Tibiyo projects in the past. Tibiyo funds have been responsible for much of the development of the Swazi economy, particularly the agro-export industries.

3. Banking institutions

   a. The Central Bank of Swaziland was established in 1979. Although it does not have monetary independence from the rand, it does have some independence with regard to exchange control.

   b. Commercial Banks:

      - Bank of Credit and Commerce International
      - Barclays Bank
      - Standard Bank

      GOS has 40 per cent participation in Barclays and Standard Banks, and appoints the chairmen of their boards. All banks are incorporated locally.

c. The Swaziland Development and Savings Bank (or Swazibank) was created primarily to mobilize savings to finance agricultural development in rural areas and low cost housing in urban areas. It is the main savings bank in the country with about one third of the nation's savings.

4. Non-banking financial institutions

- Finance Corporation of Swaziland (Fincor)- provides leasing and hire-purchase services, primarily of motor vehicles, but increasingly of agricultural and industrial vehicles and industrial equipment, fixtures and fittings.

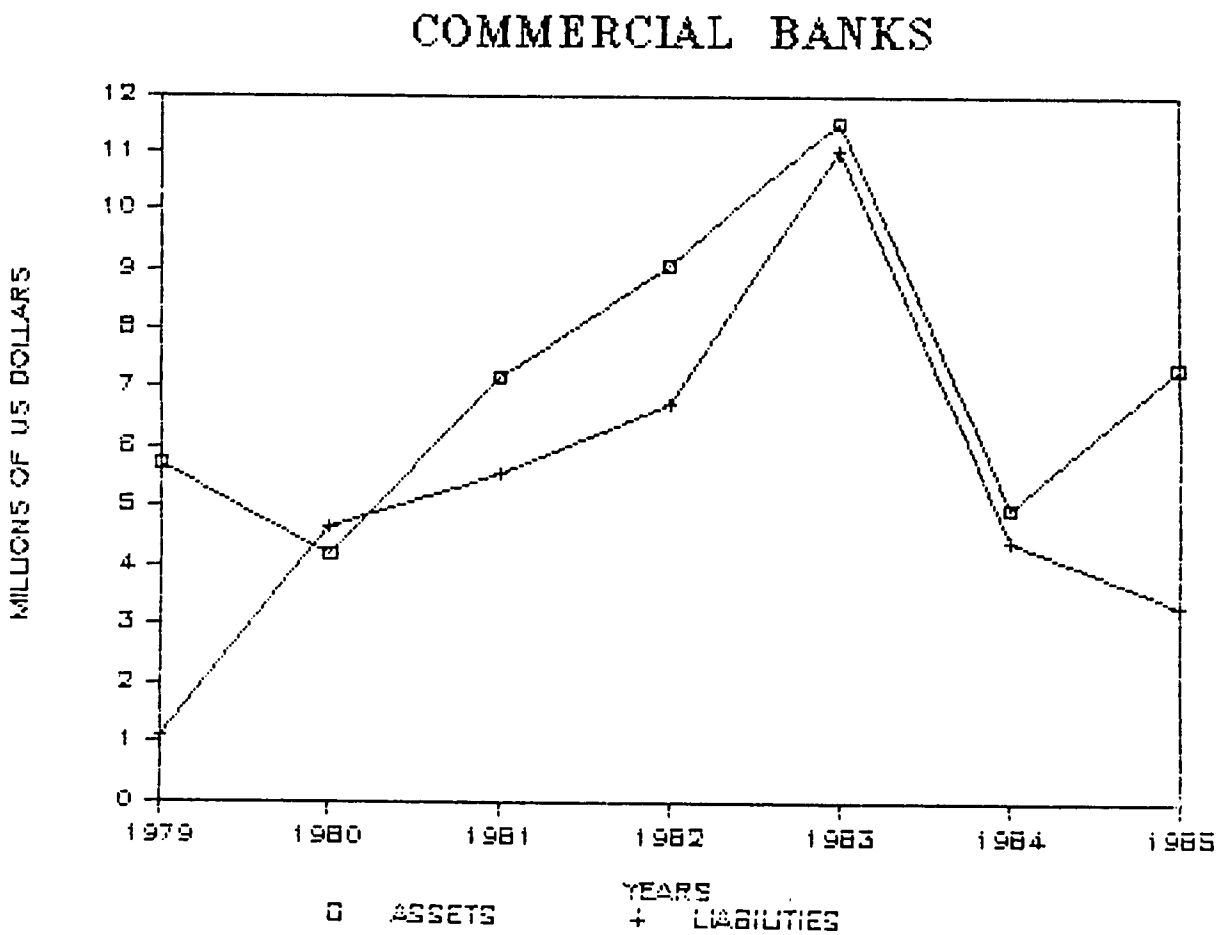
- Swaziland Royal Insurance Corporation- performance was poor in FY 1984 due to the large number of claims made after Cyclone Domoina. In 1984 net premium income from short-term insurance increased 14.7 per cent from the previous year. The Corporation has not been successful in developing long-term business.

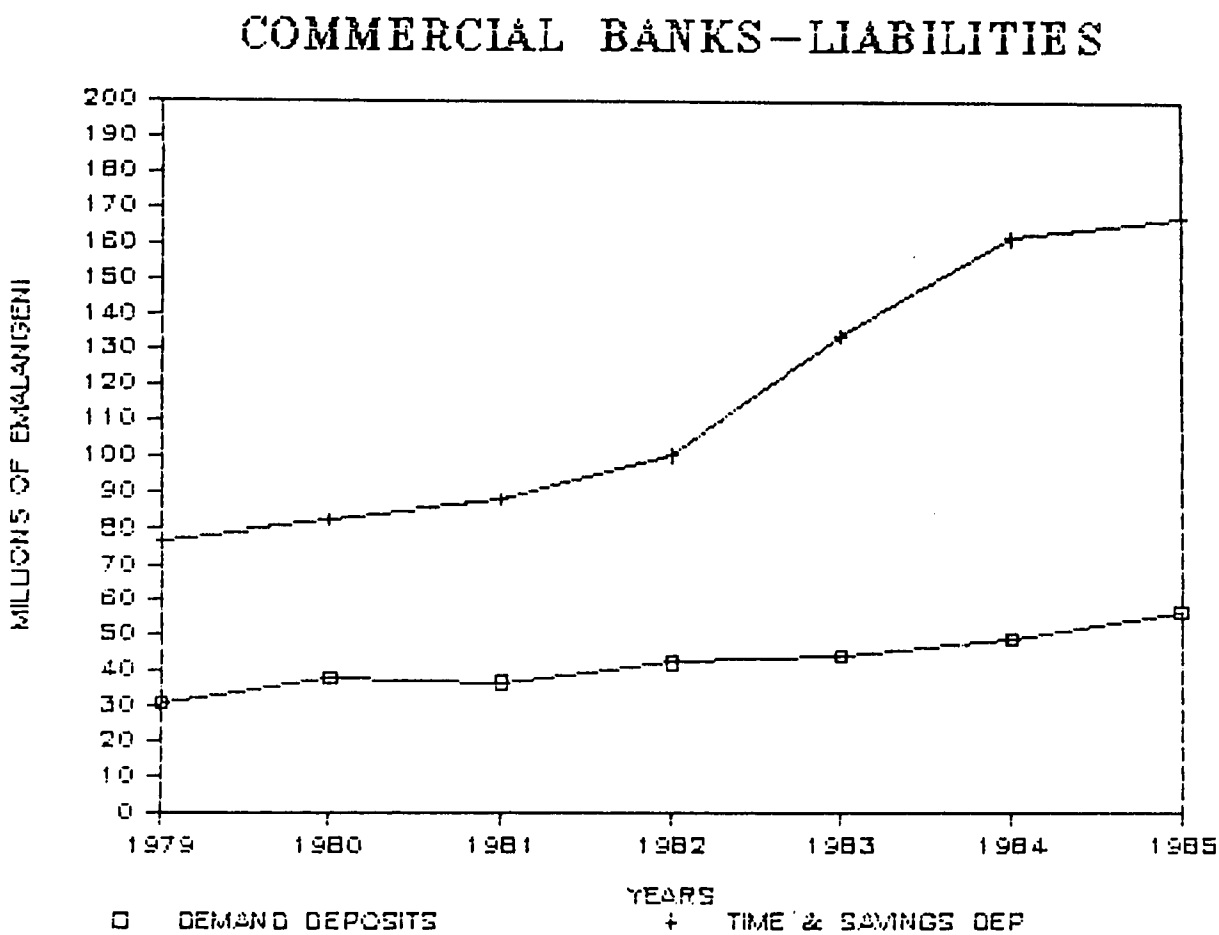
- Swaziland National Provident Fund - a statutory employee and employer contribution fund.

- Swaziland Building Society

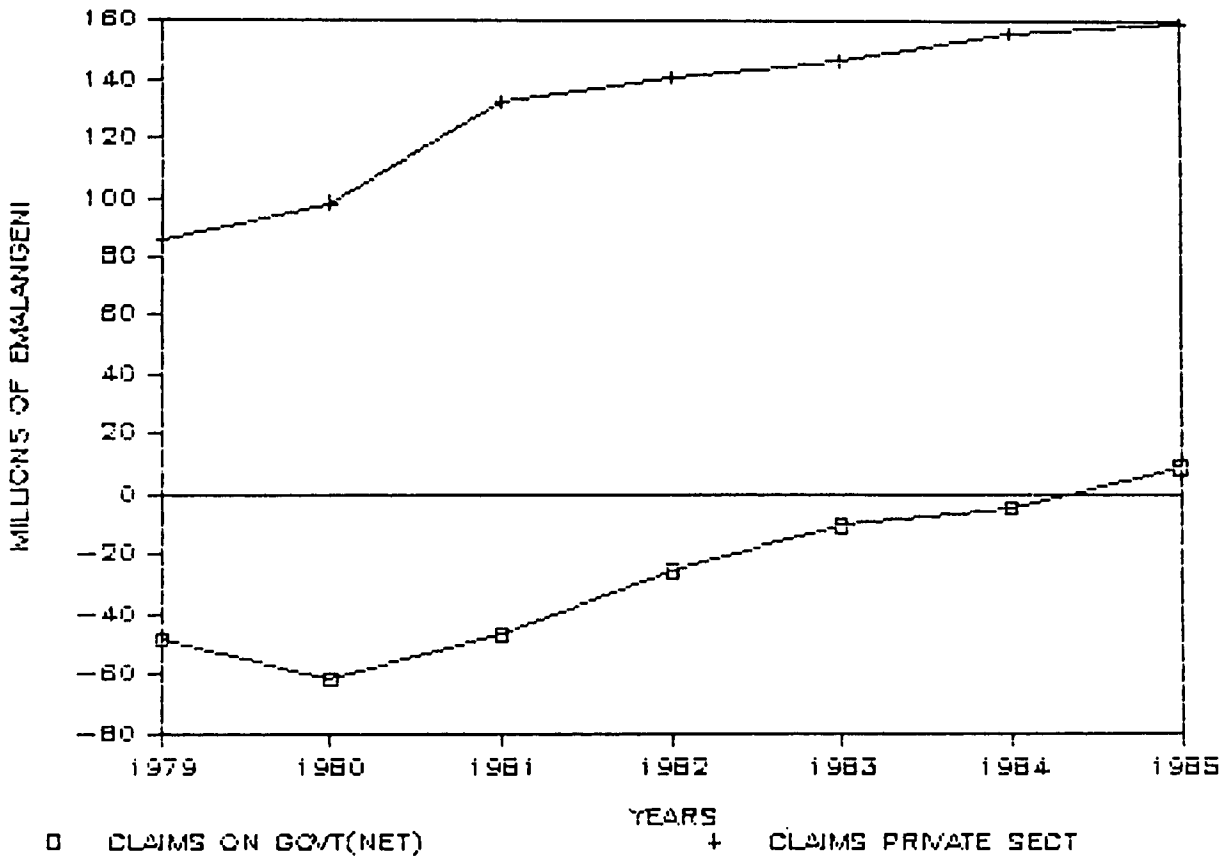
- National Industrial Development Corporation of Swaziland (NIDCS) - attracts foreign investment and channels these funds into industrial development projects. Funds have been provided by the European Investment Bank and the African Development Bank.

- Small Enterprise Development Company (SEDCO) - promotes small scale business. This institution has been failing recently primarily due to inability to regenerate funds initially loaned to SEDCO, and due to E1 million in unsecured loans to small entrepreneurs which remain unpaid.

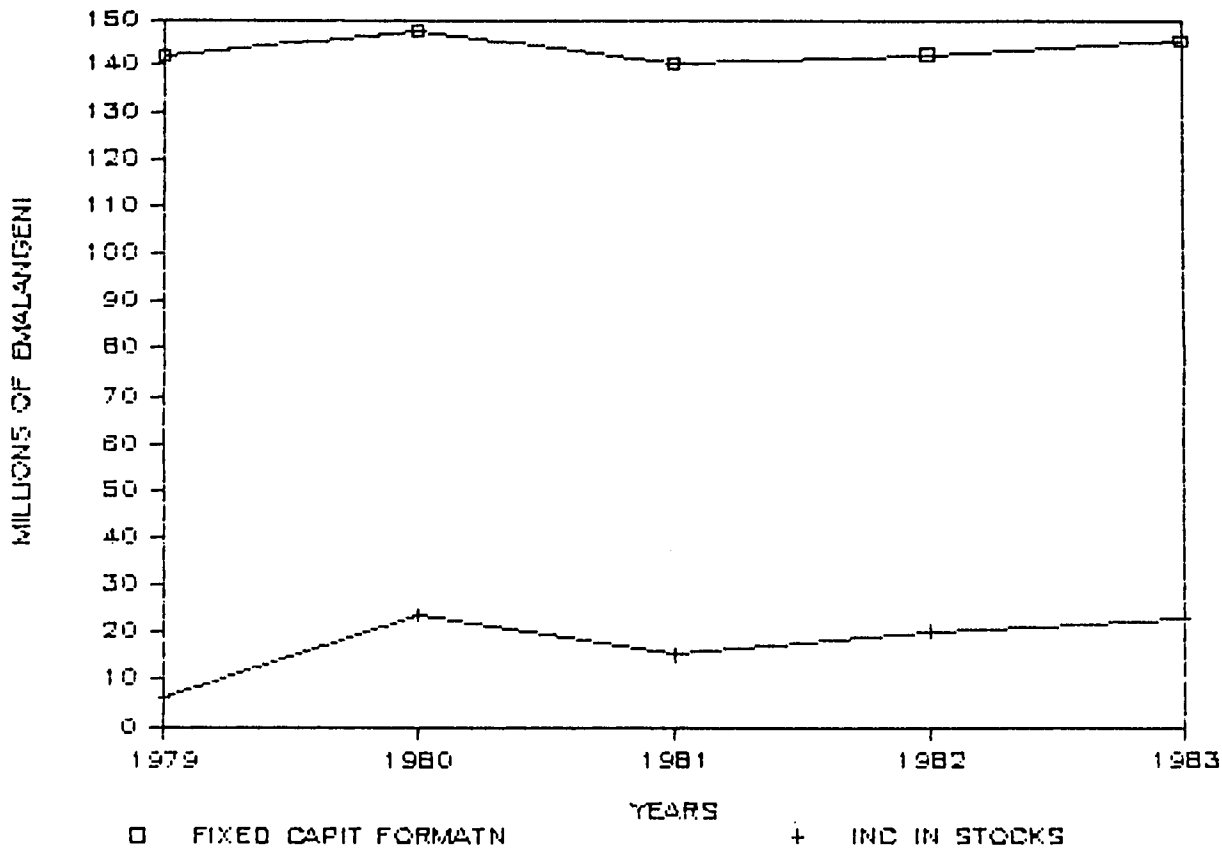

COMMERCIAL BANKS
MILLIONS OF US DOLLARS
0
1
2
3
4
5
6
7
8
9
10
11
12
1979
1980
1981
1982
1983
1984
1985
YEARS
ASSETS
LIABILITIES

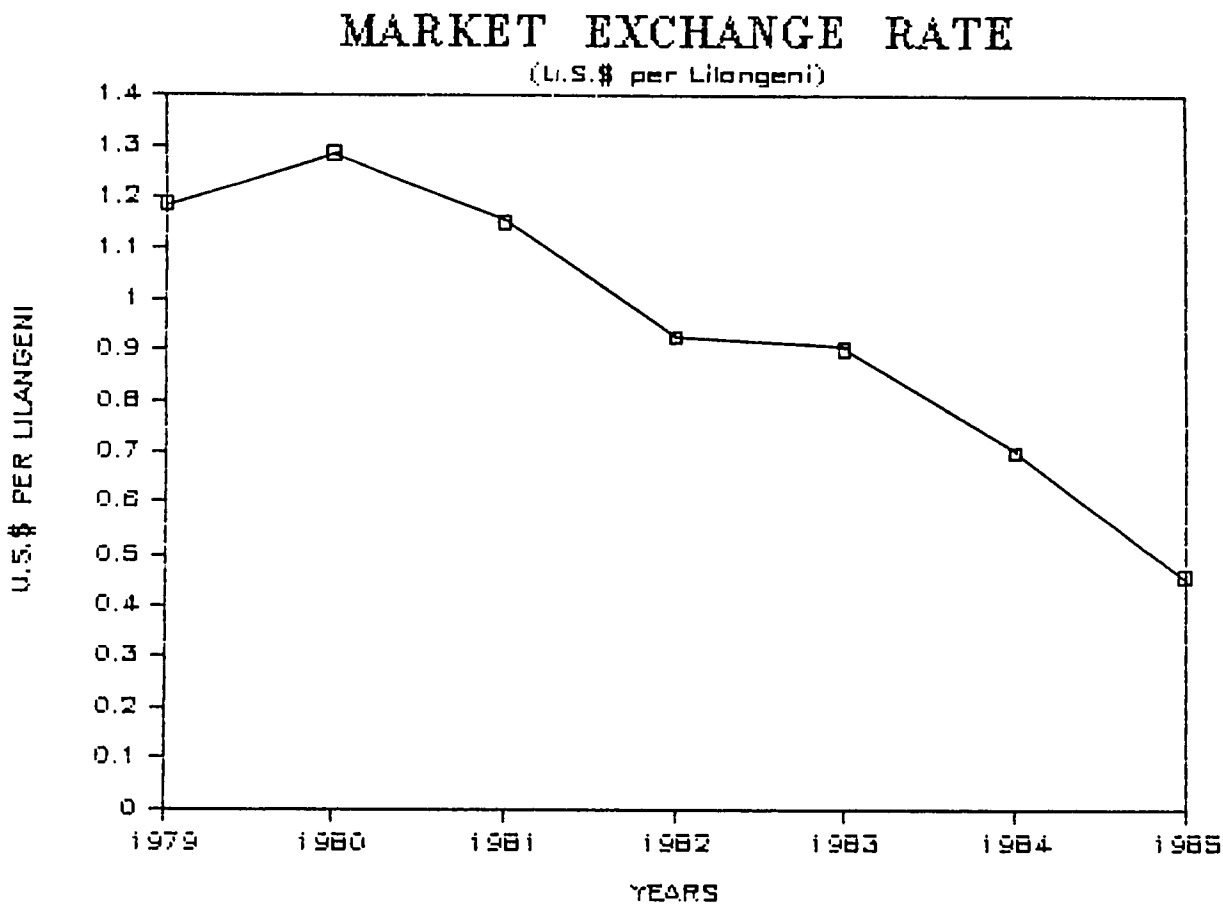

COMMERCIAL BANKS—LIABILITIES
MILLIONS OF EMALANGENI
200
190
180
170
160
150
140
130
120
110
100
90
80
70
60
50
40
30
20
10
0
1979
1980
1981
1982
1983
1984
1985
YEARS
DEMAND DEPOSITS
TIME & SAVINGS DEP

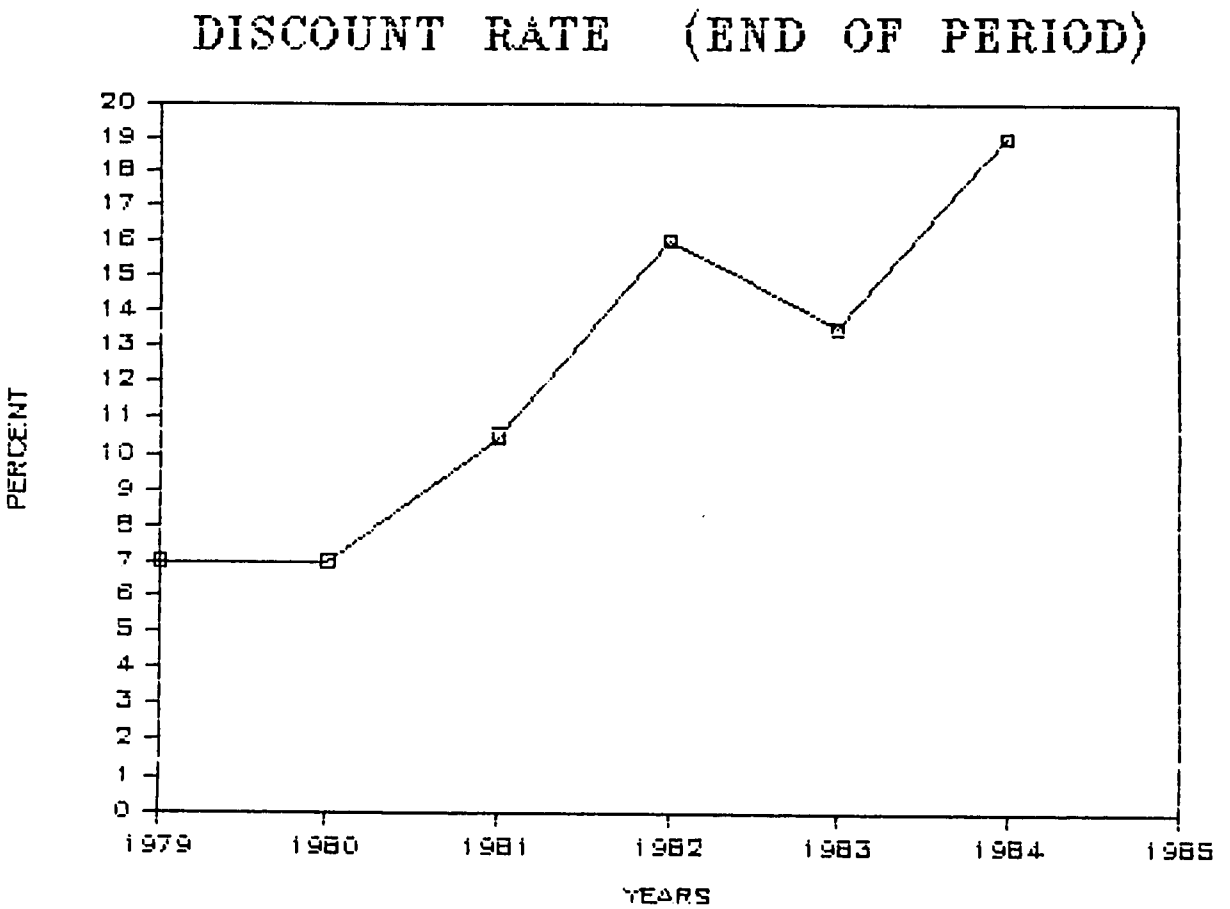
DOMESTIC CREDIT



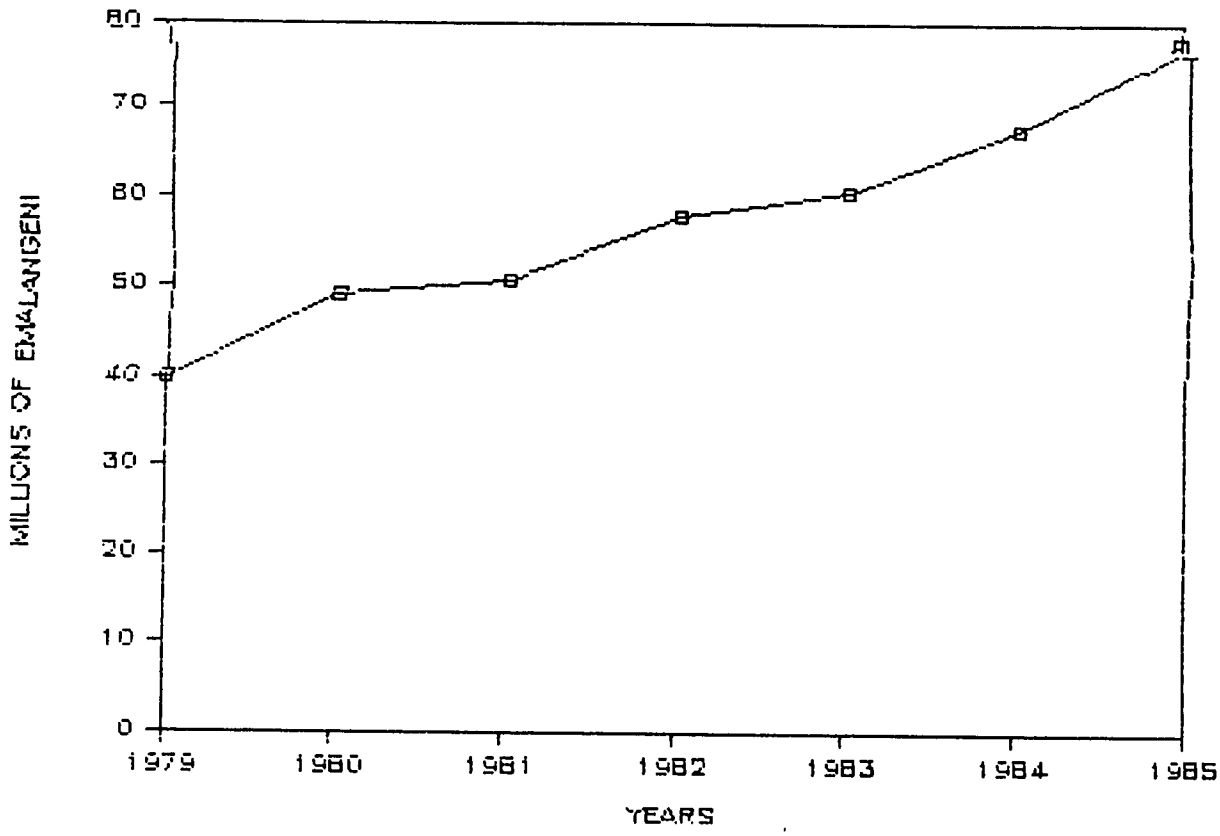
GROSS INVESTMENT




MARKET EXCHANGE RATE
(U.S.$ per Lilongeni)
U.S.$ PER LILANGENI
1.4
1.3
1.2
1.1
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
1979
1980
1981
1982
1983
1984
1985
YEARS


DISCOUNT RATE (END OF PERIOD)
PERCENT
20
19
18
17
16
15
14
13
12
11
10
9
8
7
6
5
4
3
2
1
0
1979
1980
1981
1982
1983
1984
1985
YEARS

MONEY SUPPLY, SEASONALLY ADJUSTED



E. TAX SYSTEM

The following table represents the major sources of revenue to the GOS:

SOURCES OF GOS REVENUE

REVENUE ITEM	1984/85 BUDGET (E'Million)	1984/85 BUDGET (US$ Million)	1984/85 ACTUAL (E'Million)	1984/85 ACTUAL (US$ Million)	1985/86 BUDGET (E'Million)	1985/86 BUDGET (US$ Million)
Customs Union Receipts.....	130.4	90.7	130.4	90.7	136.6	62.5
Individual & Company Tax.....	46.0	32.0	44.7	31.1	47.6	21.8
Sales Tax.....	10.0	7.0	4.5	3.1	14.0	6.4
Other Tax Revenue.....	6.4	4.5	8.8	6.1	5.7	2.6
Non-Tax Revenue.....	16.0	11.1	16.0	11.1	13.8	6.3
Total.....	208.8	145.2	204.4	142.1	217.7	99.7

NOTE:

Sources located through the International Monetary Fund and the World Bank were incomplete in several areas of interest, particularly relative to tax structure, accounting standards, the regulatory climate, and financial activity outside the banking system.